Thriving in the Social Issuesphere

Guidance for Corporate America

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As corporations grapple with upheaval in policies and practices due to recent U.S. Supreme Court rulings, federal and state legislative initiatives, and the fallout from culture wars, it's becoming clear that social issues engagement is gaining relevance on par with more traditional business imperatives.

Determining what guides company stances and staying on top of a company's own narrative is even more crucial given the potential impact on business performance. Teneo research and experience shows that companies can mitigate risks, advance goals, inspire employees, improve or limit impact and protect and enhance corporate standing by proactively establishing a framework that allows the company to engage – or not – on a social issue. This is based on a strategic rationale that lends credibility, consistency and purposefulness to the business.

This paper provides background and context on the increasingly complex "social issuesphere" that companies must now maneuver and presents recommendations for successful navigation.

Friction on All Sides

With the roiling cultural landscape and host of societal issues commanding attention, it is somewhat surprising that nearly one in five large-company CEOs feel unprepared to handle the next wave of controversial issues, according to Teneo's 2023 Global CEO and Investor Outlook Survey.[1]

In direct contrast, the survey also indicates that investors believe that CEOs are generally well-prepared to respond when the next crisis erupts and expects them to do so, making for a potentially worrisome collision of expectations.

And it's not just CEOs and investors with strong, varied views. Employees and consumers – the backbone of any successful business – are weighing in as well.

- Over two-thirds of Americans feel it is important to buy from socially responsible companies, standards which include how these businesses treat customers, employees and the community at large.[2]
- Younger Americans especially believe businesses should take a public stance on current events. A 2022 Gallup survey found that 60% of U.S. adults under the age of 30 report it is extremely important to them that businesses have a positive social and cultural impact.[3]

At the same time, a survey conducted in March 2023 by NORC Center for Public Affairs at the University of Chicago and funded by *The Wall Street Journal* showed the opposite – that 63% of their respondents thought companies "should not take public stands on social and political issues."[4]

Most recently, a survey conducted by *Morning Consult* in early June 2023 found that "Americans are broadly familiar with the 'woke' label and associate it most strongly with LGBTQ+ and diversity-related initiatives. But they're almost evenly split into three distinct camps of opinion – some believe 'woke' is good, some believe it's bad, and some aren't sure what to believe."[5]
What this means is stakeholder expectations of companies to address societal flashpoints are complex, often contradictory and not easily resolved with a simple corporate decision of whether or not to speak up.

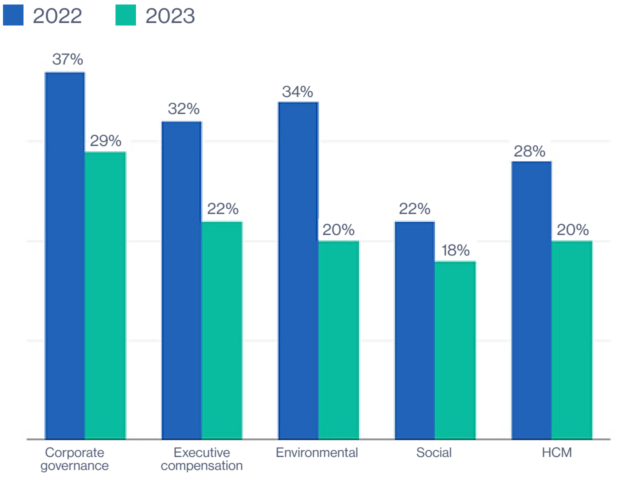
1. Teneo, 2023 Global CEO and Investor Outlook Survey (2022)
2. Good must grow, Tenth Annual Conscious Consumer Spending Index (2022)
3. Gallup, Force for Good Survey (2022)
4. NORC at the University of Chicago and *The Wall Street Journal*, America Pulls Back From Values That Once Defined It, WSJ-NORC Poll Finds (2023)
5. *Morning Consult*, How Americans Really Feel About 'Woke' Companies (2023)

The ESG Backlash and Anti-Backlash

The totality of ESG has been brought into what we call the "social issuesphere" – the cacophony of opinions and actions facing CEOs that surround just about every aspect of business. Following the end of proxy season and another U.S. presidential election cycle warming up, the societal and cultural issues terrain is getting rockier and spreading into more territory. This year, companies received more shareholder proposals, increasing 5% in 2023 from 2022 – including a 39% increase in filings from anti-ESG proponents. However, support for shareholder proposals has dropped across every category, as shown below.[6]

Shareholder Proposals - Average Support Level, by Subject

Russell 3000



2022: filed and voted Jan through June; 2023: filed Jan through June 7, voted through June 1
Source: ESGAUGE, 2023 - Get the data - Created with Datawrapper

Anti-ESG proponents are increasingly vocal. Some have begun to single out, and at times penalize, companies and executives for focusing on social issues to, what they believe is, the detriment of financial performance. CEOs have been accused of exceeding their authority by stepping into the social issuesphere, delving into areas outside of their remit as corporate stewards.

This has had an impact on executives' willingness to publicly highlight ESG accomplishments.

Barron's reports on an October 2022 study by South Pole, a climate consulting firm, stating that "72% of the 1,200 private companies it surveyed had set emissions targets in line with global climate goals – but a quarter of those businesses don't plan to publicize their plans or achievements 'beyond the bare minimum,' due to backlash and counter-backlash forces."[7]

Corporate diversity, equity and inclusion initiatives, closely linked to ESG strategies, have similarly come under scrutiny and, in some cases, litigation. The recent U.S. Supreme Court decision in *Students for Fair Admissions v. University of North Carolina/Students for Fair Admissions v. Harvard College*, while expressly addressing affirmative action in higher education institutions, is expected to translate into further challenges to corporate DE&I programs.

Despite being less vocal externally, companies have not backed down from their commitments and continue to engage on social issues as part of their ESG remit and overall strategy. While CEOs may not feel that their companies are 100% prepared to respond to the next controversial social issue that emerges,[8] ESG-related issues are ones that CEOs have on their radar. CEOs across the globe rank both social and economic equality issues as ESG priorities.[9]

6. The Conference Board & ESGUAGE, Shareholder Voting Trends Live Dashboard (2023)
7. South Pole, Net Zero and Beyond (2022)
8. Teneo, 2023 Global CEO and Investor Outlook Survey (2022)
9. The Conference Board, C-Suite Outlook 2023 (2023)

CEOs rank energy and economic opportunity/equality as top E and S issues across industry sectors[10]

Rank your organization's ESG-environmental priorities (Rank top 3, with 1 being the most important priority)

Environmental Priorities	CEOs (Global)	C-suite Global	US CEOs	Europe CEOs	China CEOs	Japan CEOs	Latin America CEOs	Manufacturing CEOs	Financial Services CEOs	Non-financial Services CEOs
Energy	1	1	1	1	3	1	1	1	1	1
Climate	2	3	2	4	2	2	7	7	2	2
Waste	3	2	3	3	5	3	2	3	4	3
Carbon and other GHG emissions	4	4	5	2	4	4	5	2	3	5
Plastics, packaging, materials	5	5	6	6	6	5	6	6	6	4
Water usage	6	7	4	5	8	9	3	5	5	6
Air pollution	7	6	7	9	1	6	8	4	9	7
Biodiversity/ conservation	8	9	9	7	7	8	4	9	8	8
Sustainable agriculture	9	8	8	8	9	7	9	8	7	9

Rank your organization's ESG-Social priorities. (Rank top 3, with 1 being the most important priority)

Social Priorities	CEOs (Global)	C-suite Global	US CEOs	Europe CEOs	China CEOs	Japan CEOs	Latin America CEOs	Manufacturing CEOs	Financial Services CEOs	Non-financial Services CEOs
	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Economic opportunity/ equality/security	1	1	1	1	1	2	1	1	2	1
Gender equality	2	2	2	2	6	6	2	2	1	2
Sustainable capitalism	3	7	4	3	7	1	5	5	4	3
Labor conditions/rights	4	4	9	4	2	3	3	3	5	4
Human rights	5	5	6	6	3	4	4	4	7	6
Racial equality	6	3	3	10	5	8	9	6	3	5
Public health	7	6	8	7	4	7	8	7	6	9
Other social equality (LGBTQ+, disability, age, etc.)	8	8	7	5	10	9	7	8	8	7
Democracy/election/ voting rights	9	9	5	9	9	5	6	9	9	8
Corporate political activity	10	10	11	8	8	11	10	10	10	10
Immigration/nationalism	11	11	10	11	11	10	11	11	11	11

10. The Conference Board, C-Suite Outlook 2023 (2023)

Further, the majority of investors continue to focus on ESG progress and holding companies accountable. While some companies are backing away from use of the term ESG, there has been an uptick in shareholder proposals related to the congruency between companies' stated values and corporate actions. Investors, like other stakeholders, continue to pressure companies to be consistent in their actions and communications. Almost half of these proposals received over 30% support, signaling a desire for companies to build a framework around their approach and engagement on social issues.

With challenges, opinions or at the very least questions coming from all sides, reactions rest on a company's ability to make thoughtful decisions on what issues to engage with – and why and how. Engagement goes beyond making a statement and must include action, as public views of unsupported statements have changed for the worse.

The key question facing CEOs and companies today is not whether to address each raging societal issue. It is how best to lead the company and navigate the social issuesphere.

Best Practices for Decision-Making on Social Issues

Environmental and governance practices are often dictated by regulations and standards. There is considerably less clarity for how companies can best determine stances on social issues. We recommend that companies adopt at least one, or maybe all, of the following three practices.

1. Social Issue Action Framework

Having a framework in place for how, when and on which social issues to engage is vital. Advanced planning can be extremely beneficial for boards, C-suites, employees, business partners and others. It helps draw a reasoned and straight line between the issue, company position and/or actions, and business strategy.

Frameworks should be clear and not too generalized, difficult or onerous to make them less likely to crumble under the weight of process.

They should consider nuance, enable flexibility, consider the right data and easily get to the heart of the matter. Because the issues, viewpoints and options are varied and complex, companies should be aware of oversimplification or relying solely on answers to just a few internal questions. In mapping engagement to the business, recognize that previous engagement is not the only measure to factor in. Consider four filters:

a. Landscape: What are the macro implications and impact?

b. Business: What are the business implications of the decision, pros and cons?

c. Alignment: What decision aligns with existing/ previous corporate responses and relationships?

d. Activation: What decision is reflective of company intent, desire and appetite (the gut check)?

There should be a few key data points under each filter that will enable companies to get to a strategic conclusion.

Values are important guideposts that should direct corporate business practices. However, company values are often expressed in broad terms and can be interpreted as support for any side. Leading words used for corporate values are "innovative," "customer-centric," "accountable," "integrity" and "respect." This type of wording can describe desired culture and performance, yet fall short as a means for distinguishing whether or how a company will engage on any given societal issue. Gallup found that "only 23% of U.S. employees strongly agree that they can apply their organization's values to their work, and only 27% strongly agree that they 'believe in' these values."[11]

2. ESG Materiality Assessments

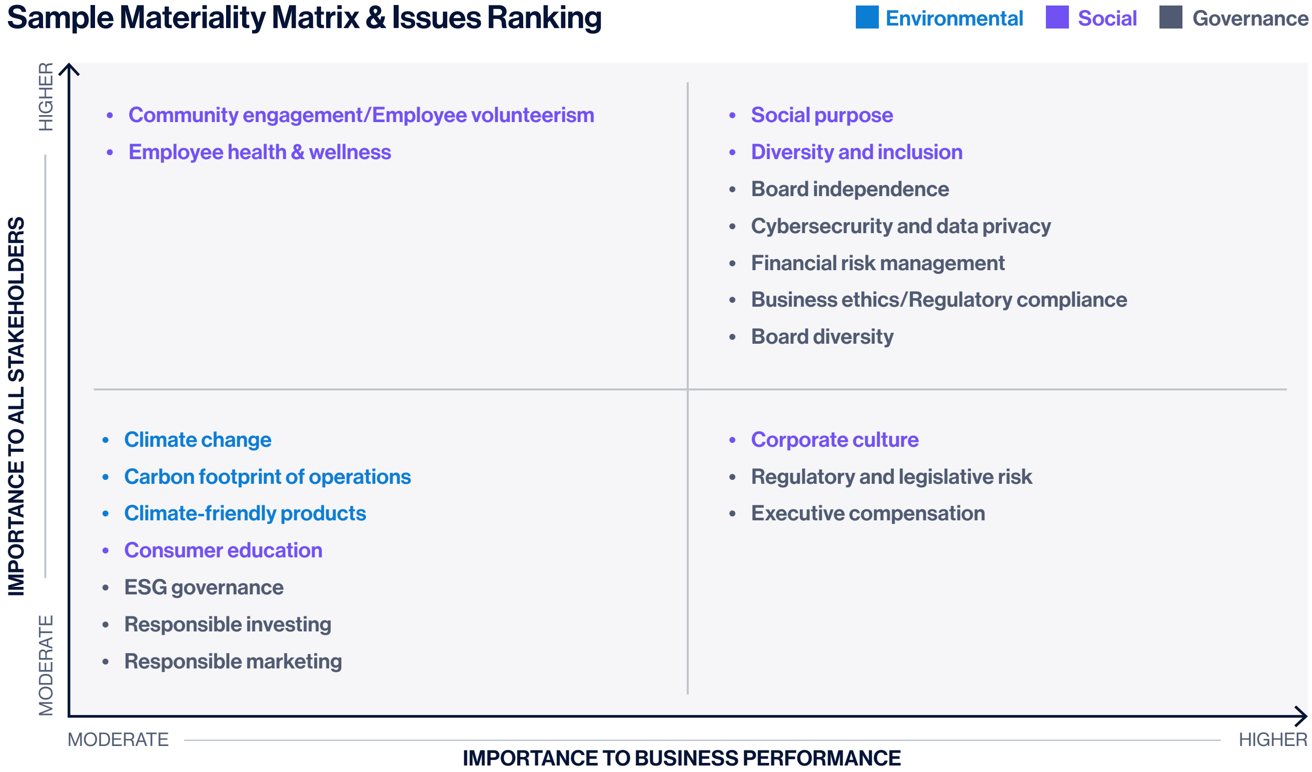
The best frameworks have an anticipatory component to ensure that companies are not blindsided by issues that could have been identified much earlier. ESG materiality assessments and proactive determination of who the company is from a mission, purpose and societal issues standpoint create better understanding and connect the dots for stakeholders, especially when stakeholder viewpoints are included.

11. Gallup, Are Your Company Values More Than Just Words? (2022)

Through materiality assessments, companies can learn the relative importance of ESG-related topics according to its stakeholders and then prioritize its ESG strategy and programs accordingly. Understanding how stakeholders think and which stakeholders will be impacted by an issue is key to determining a response, particularly as increasing employee activism raises the stakes. According to Teneo's 2023 Global CEO and Investor Outlook Survey, CEOs and investors both prioritize employees and customers when responding to controversial social issues.[12]

Importantly, when thorny social issues arise, and a company must determine how to manage them, ESG materiality assessments can serve as a strong defense in explaining why certain decisions were made, regardless of whether that explanation is public or private. For example, if a company is being questioned about its high level of investment in its diversity and inclusion program, the company can point to the fact that DE&I was ranked as a top material factor by its stakeholders, as shown through the results of its materiality assessment. A matrix illustrating this example scenario is below.

Sample Materiality Matrix & Issues Ranking



Another recommended approach when a materiality assessment has been conducted is proactive communications to key audiences about a company's ESG, philanthropic and community focus as informed by stakeholders and tied to mission and purpose. Defining and sharing the rationale for company engagement on ESG/social issues in advance can build a bank of understanding ahead of turbulent times, build critical relationship capital, as well as nurture growing stakeholder trust. As in sports, issues management and other elements of life, a strong offense is often the best defense.

12. Teneo, 2023 Global CEO and Investor Outlook Survey (2022)

3. Social Issues Register

Most companies maintain a risk register to manage risks and meet regulatory compliance requirements. We advise creation of a social issues register based on current and upcoming social issues. A social issues register:

- Improves decision-making and response time
- Identifies social issues that may impact the company
- Provides background and context
- Includes company history on the issue to inform an objective path forward

Below, in the sample social issues register, the following categories refer to:

- Issue: ESG/social issue topic
- Location: Relevant offices/geographic impact
- Company Exposure & Position: Determined by historic corporation action and communications, existing corporate policies and mechanisms, relevant peer action(s), etc.
- Recent Status & Comments: Relevant recent changes on the topic that is leading to increased scrutiny – including social movements, legislative changes, etc.
- Risk Level: Based on previous columns, risk rating that is assessing the reputational impact on the business to engage (or not) on the topic. Classified as high (red), medium (yellow) or low (green).

Sample Social Issues Register

Issue	Location	Company Exposure & Position	Recent Status & Comments	Risk Level
Affirmative Action	U.S.	Fictional company X signed the amicus brief in support of affirmative action. The CEO has historically spoken out on the topic in favor of affirmative action. Fictional company X partners with universities who have publicly denounced the decision.	Supreme Court ruling in *Students for Fair Admissions v. University of North Carolina/Students for Fair Admissions v. Harvard College* limits race-consciousness in college admissions.	
Immigration	UK, U.S.	Fueled by vocal anti-immigration forces, employee concerns rise as personal and family status, as well as safety considerations are perceived as more tenuous.	Post-COVID expiration of Title 42, upcoming elections and border town overcrowding contribute to increasing divisive government and public attention in the U.S. There is a lack of necessary resources such as housing and social services to accommodate migration across nations. Visa approvals are slowing.	
Gender Pay Inequity	CAN, UK, U.S.	Fictional company X pays employees equal pay for equal work. Fictional company X just put out its first global pay equity report. Adjusted global gender pay gap is 1:1.	The gender pay gap in the U.S. hasn't changed much in two decades (Pew Research Center).[13] The UK requires employers with 250 or more employees to report gender pay gap data.	

13. Pew Research Center "The Enduring Grip of the Gender Pay Gap" (2023)

Taking Action

Even when armed with a framework, an ESG materiality assessment and/or a social issues register, most companies prefer to remain silent on social issues that do not directly affect their business. Companies cannot and should not weigh in on every issue. What's happening more and more is that both issue opponents and proponents are bringing companies into the topics through lawsuits, shareholder proposals, public accusations or pronouncements, and even stakeholder posts on social media.

Rolling Stone conducted an analysis showing that boycotts of businesses over social issues tend to have little to no effect on corporate performance over the long-term.[14] Teneo conducted research on the corporate actors that engaged on three high-profile societal issues in recent years: the murder of George Floyd, the increase in anti-LGBTQ+ legislation and the Supreme Court's overturning of Roe v Wade. Our research shows Glassdoor ratings were, on average, 4% higher for companies that linked statements of support with deliberate action.

Just Capital published a report highlighting how, across political identities, the new corporate mantra must be "say less, do more." Speaking out on social issues without accountability and action rings false to stakeholders across the business lifecycle – and will likely cause more harm than good.[15] Action, with or without public statements, is better received.
Even though business has recently been shown to be the most trusted institution, questions from stakeholders remain over whether business can be trusted to do the right thing.

Looking Ahead

According to Teneo's 2023 Global CEO and Investor Outlook Survey, the majority of CEOs view societal disruptions as a major consideration, understanding that there will be no shortage of external issues in the coming years.[16] That viewpoint is consistent among stakeholder groups. Adopting a thoughtful and measured framework on how and when to respond to external issues that (1) reinforce who a company is and (2) make consistent sense to the broadest range of stakeholders, are critical to successfully navigating the social issuesphere.

14. *Rolling Stone*, Companies That Get 'Woke" Aren't Going Broke -They're More Profitable Than Ever. (2023)
15. Just Capital, 5 Key Insights from the American Public to Help Companies and Investors Lead Through Increasing Attacks on ESG and 'Woke' Companies (2023)
16. Teneo, 2023 Global CEO and Investor Outlook Survey (2022)

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